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SUBJECT: GOT ANNOUNCES 2003 PRIVATIZATION
PROGRAM - A GOOD STEP IN RIGHT DIRECTION

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1. SUMMARY: DEPUTY PRIME MINISTER SENER ANNOUNCED JANUARY 13 THE 2003 PRIVATIZATION PROGRAM, ADOPTED EARLIER BY THE HIGHER PRIVATIZATION COUNCIL. IT SETS AN AMBITIOUS TARGET OF \$4 BILLION IN PRIVATIZATION REVENUE. IT INCLUDES FOUR MAJOR STATE ENTERPRISES - PETKIM (PETROCHEMICALS), TEKEL (TOBACCO AND ALCOHOL), TURKISH AIRLINES, AND TUPRAS (OIL REFINING), AND DOZENS OF SMALL FERTILIZER, TEXTILE, MACHINERY PLANTS AND OTHER STATE ASSETS. THE DETAILED PLAN TO SELL OFF TEKEL SHOULD MEET A IMF PRIOR ACTION, AND THE PLAN SHOULD ALSO IMPRESS THE MARKETS. THE CHALLENGE WILL BE TO FOLLOW THROUGH AND SELL OFF THESE COMPANIES EVEN IF MARKET VALUATIONS COME IN UNDER GOT EXPECTATIONS, AND DESPITE PUBLIC SECTOR UNION CONCERNS WITH LAY-OFFS (SENER ADDRESSED THE LATTER IN HIS STATEMENT). AK LEADERSHIP HAS CONSISTENTLY TOLD US THEY WOULD ACCELERATE PRIVATIZATION. IMPLEMENTING THIS PROGRAM, WHICH WE WILL MONITOR CLOSELY, WOULD ACCOMPLISH THAT. END SUMMARY.

2. (U) DEPUTY PRIME MINISTER SENER ANNOUNCED THE GOT'S DETAILED PRIVATIZATION PROGRAM FOR 2003 ON JANUARY 13. THE PROGRAM HAS BEEN APPROVED BY THE HIGHER PRIVATIZATION COUNCIL (A SUB-SET OF THE FULL CABINET, IT HAS THE TURKISH ACRONYM OYK). THE GOT AIMS TO REALIZE \$4 BILLION IN PRIVATIZATION REVENUE IN 2003. SENER STATED THIS WOULD AFFECT A TOTAL OF 64,000 PEOPLE WORKING IN THE STATE-OWNED COMPANIES. HE SAID "PEOPLE AFFECTED BY THE PRIVATIZATIONS WILL BE TAKEN CARE OF" (MEANING PROBABLY THE WORLD BANK-FUNDED \$250 MILLION FACILITY TO PAY SEVERANCE PACKAGES.) PRIVATIZATION ADMINISTRATION (PA) DEPUTY CHAIRMAN HIDAYAT KAYA TOLD US THE PA PLANS TO LAY OFF 10,000 WORKERS IN TEKEL PRIOR TO ITS JUNE 2003 TENDER.

3. THE 2003 PRIVATIZATION CALENDAR ANNOUNCED BY SENER IS AS FOLLOWS:

FIRST QUARTER 2003:

THE MAJOR PRIVATIZATION IS THE TENDER FOR PRIVATIZATION OF PETKIM (STATE PETROCHEMICAL GIANT), VIA BLOCK SALE OF A MINIMUM 51 PERCENT. OTHER PRIVATIZATIONS INCLUDE THE GERKONSAN STEEL PLANT; THE TAKSAN MACHINE TOOLS PLANT; ADAPAZARI FACILITY OF TURKISH AGRICULTURAL EQUIPMENT ORGANIZATION; SEKA PAPER PLANTS IN AKDENIZ, AKSU, BALIKESIR, CAYCUMA PLANTS; THE ETI SILVER AND METALLURGICAL PLANTS (ALL VIA EITHER BLOCK SALE OF SHARES OR ASSET SALES).

SECOND QUARTER 2003:

THE TWO MAJOR PRIVATIZATIONS ARE THE TENDER OF THE GOT'S 66 PERCENT SHARE OF TUPRAS (STATE OIL REFINING MONOPOLY), AND TEKEL (TOBACCO, ALCOHOL AND SALT GIANT TO BE SPLIT INTO THREE CONSTITUENT PARTS AND TENDERED IN JUNE). SMALLER PRIVATIZATIONS ARE SUMER HOLDING'S TEXTILE AND LEATHER PLANTS IN DIYARBAKIR, ADIYAMAN, CANAKKALE LEATHER, VAN, TERCAN AND AKDENIZ; THE GEMLIK, SAMSUN AND KUTAHYA FERTILIZER PLANTS (EITHER VIA BLOCK SALE OF SHARES OR ASSET SALES).

SECOND HALF 2003:

THE MAJOR PRIVATIZATION IS A TENDER FOR TURKISH

AIRLINES, VIA BLOCK SALE OR PUBLIC OFFERING. OTHER PRIVATIZATIONS INCLUDE A SMALL PORT CALLED TASUCU (VIA ASSET SALE OR TRANSFER OF OPERATING RIGHTS; THE BLACK SEA COPPER FACILITIES; ETI COPPER; SEKA PAPER COMPANY IN IZMIR; SUMER HOLDING'S TEXTILE PLANTS IN MERINOS, BAKIRKOY, BEYKOZ, ANTALYA, BERGAMA AND MANISA; AND ATAKOY HOTELS AND MARINA IN ISTANBUL. THESE SMALLER SALES CAN BE VIA EITHER BLOCK SALE OF SHARES OR ASSET SALES.

14. (U) SENER ALSO ANNOUNCED PLANS EITHER TO OUTRIGHT PRIVATIZE OR TRANSFER TO THE PRIVATIZATION ADMINISTRATION SEVERAL OTHER STATE-OWNED COMPANIES: -- THE SUGAR BEET REFINERIES (THERE ARE 27 OF THEM SCATTERED THROUGHOUT TURKEY) WILL BE PRIVATIZED THROUGH A SEPARATE OYK DECISION (REQUIRES COORDINATING WITH THE MINISTRY OF INDUSTRY); -- THE ISTANBUL STOCK EXCHANGE AND THE NATIONAL LOTTERY WILL BE TRANSFERRED TO THE PA FOR EVENTUAL PRIVATIZATION.

15. (U) PA CHAIRMAN TURGUT BOZKURT ALSO MADE REMARKS FOLLOWING DPM SENER'S PRESENTATION. BOZKURT SAID THE RESTRUCTURING OF HALKBANK WAS COMPLETE (HALK IS ONE OF TWO LARGE STATE-OWNED BANKS AND UNDER THE STATE BANK LAW MUST BE PRIVATIZED BEFORE YEAR-END 2004.) BOZKURT SAID HE PLANS TO INCLUDE IT IN THE 2003 PRIVATIZATION PROGRAM SOON. BOZKURT ADDED THAT THE TURK TELEKOM TENDER COMMISSION IS CONTINUING THE VALUATION PROCESS, TO BE FOLLOWED BY AN ANNOUNCEMENT OF A PRIVATIZATION STRATEGY.

16. (U) TWO MISSING ELEMENTS IN THE PRIVATIZATION ANNOUNCEMENT WERE ENERGY AND STEEL. PA DEPUTY HALUK BUYUKBAS TOLD US THAT ENERGY PRIVATIZATION IS INCLUDED IN THE COMPLETE OYK DECISION (WE ARE SEEKING A COPY) BUT WITHOUT DEADLINES. ON STEEL, BUYUKBAS SAID THE PA PREFERENCES TO COMPLETE THE MERGER OF STATE-OWNED ISDEMIR INTO ERDEMIR BEFORE SELLING OFF THE COMBINED COMPANY.

COMMENT

17. (SBU) THIS IS AN EXTREMELY AMBITIOUS PRIVATIZATION PROGRAM (COMPARE WITH PRIVATIZATION PROCEEDS IN 2002 OF ABOUT \$500 MILLION), AND THE DETAILED TEKEL PLAN SHOULD MEET A PRIOR ACTION UNDER THE IMF FOURTH REVIEW. ITS TARGET OF RAISING \$4 BILLION WILL DEPEND ON MARKET VALUATIONS. ONE CHALLENGE FOR THE GOT WILL BE TO SELL OFF THESE COMPANIES EVEN IF MARKET VALUATIONS COME IN UNDER EXPECTATIONS. THE OTHER MAJOR CHALLENGE IS TO DEAL WITH THE POLITICAL FALL-OUT FROM LAY-OFFS AT STATE-OWNED COMPANIES, WHICH SENER REFERRED TO IN HIS STATEMENT.

18. (SBU) IMPLEMENTATION OF THIS IMPRESSIVE PROGRAM WOULD BE A KEY STRUCTURAL REFORM VICTORY, THOUGH WE SHOULD NOT ENCOURAGE THE GOT TO VIEW IT AS A FISCAL POLICY SOLUTION, WHICH AK LEADERS HAVE A TENDENCY TO DO. OVER THE PAST FEW YEARS, GOT PRIVATIZATION EFFORTS HAVE BEEN LONG ON RHETORIC AND SHORT ON ACTION. WE WILL CLOSELY MONITOR THE GOVERNMENT'S IMPLEMENTATION OF THIS PROGRAM, AND PUSH WHENEVER NECESSARY. PEARSON